Testimony of the State of Alaska
Regarding the U.S.-Chile Free Trade Agreement:
Advice Concerning Probable Economic Effect
Investigation No. 332-430

Introduction

Thank you, Mr. Chairman and other members of the Commission, for the opportunity to provide testimony to the U.S. International Trade Commission (ITC) today. My name is Marideth Sandler. I am Associate Director for International Policy, Transportation and Telecommunications for Alaska Governor Tony Knowles in his Washington, D.C., office.

The State of Alaska has submitted letters and supplementary information to the U.S. Trade Representative's Office (USTR) on the impacts of a proposed U.S.-Chile Free Trade Agreement as well as specific concerns of the State of Alaska, its fishermen and processors. One of requests of USTR was to initiate an investigation of the probable economic effects of a U.S.-Chile Free Trade Agreement. We very much appreciate the ITC initiating such an analysis, at USTR's request.

We have two concerns regarding the logistics of ITC's analysis: first, the report's completion date; and second, the report's availability to the public. Susan Cronin, USTR's Director for Brazil and the Southern Cone and a lead in the negotiations with Chile stated recently that President George W. Bush and President Ricardo Lagos had agreed to complete the negotiations by the end of this year. This, she said, will require the pace of negotiations to be compressed. Therefore, the advertised completion date of ITC's analysis, October 17, 2001, is too late for the usefulness of ITC's objective findings and independent analysis to be utilized as an essential guideline for the negotiations. The State of Alaska requests that the ITC completion date be moved up to August 31, 2001, if not sooner. Also, because of the major socioeconomic importance of this agreement to Alaska and other interested parties, we request that ITC's findings not be confidential. For those portions of the report sensitive to national security considerations, we understand that they need to remain confidential. However, discussions of the salmon industry would not seem to be one of the sectors relating to national security, so we ask that the portion of ITC's analysis addressing the State of Alaska's concerns be made available to Governor Knowles and the public.

Overview

The State of Alaska believes in the importance of free trade and its benefits to the U.S. and to the state. International trade is very important to the health of Alaska's economy, with seafood being Alaska's number one export. The Alaska seafood industry also is of critical significance to Alaska's rural economies and to that of the state as a whole.

Because of the importance of the Alaska salmon industry to the state, its communities and its rural and Native Alaskan residents, we would like to present several major concerns about the potential U.S.-Chile Free Trade Agreement. We ask that these be considered in the analysis being prepared as well as in the negotiating position of the United States:

- The substantial increases in Chilean salmon imports are driving down fresh salmon fillet product prices and preempting viable participation by Alaska processors.
- Significant costs of production are required to be internalized and borne by Alaska salmon harvesters and producers with no comparable internalization requirements and costs required of Chilean salmon producers
- U.S. marketing of Chilean organic salmon will occur without establishment of U.S. federal certification standards and without the opportunity for Alaska salmon to compete

The State of Alaska feels strongly that these concerns be identified by the ITC and then addressed by USTR. If these concerns are neglected by the Free Trade Agreement between the two countries, the State of Alaska believes that the probable economic effect of the Agreement would be disastrous on the wild seafood harvesting and processing industries of Alaska, as well as on the economy of the state and its residents.

Background: The Value of Alaska's Salmon Industry and its Importance to Alaskans

- Seafood is Alaska's number one export.
- Alaska's seafood industry is the state's second largest employer, employing 20,000 people statewide. It provides the major economy and form of cash resources for most of Alaska's coastal and Native communities.
- In 2000, there were over 6,600 vessels registered to harvest salmon. Ten years before, this number was 7,500.
- In 1999, of the 11,406 salmon permits, 8,733 (or 77%) were fished. In 1990, of the 12,267 salmon permits, 10467 (or 85%) were actively fished.

- Twelve years ago the Alaska salmon industry generated almost $1 billion in direct payment to fishers.
- It was estimated in 1999, with approximately 8,800 permit holders participating in the salmon fisheries, the ex-vessel value paid to fishermen in 1999 was $383 million which compares in 2000 to $275 million.
- The estimated wholesale value of salmon in 2000 was over $800 million paid to processors for product in finished product form (can, fillet, etc.).
- Over 120 coastal communities (over a third of Alaska's towns) stake their livelihood in the salmon industry.

Substantial Increases in Chilean Salmon Imports to the U.S. are Driving Down Fresh and Frozen Salmon Fillet Product Prices and Preempting Viable Participation by Alaska Processors

In 1994, the annual import number of dressed, head-on Atlantic salmon fillet exports from Chile to the U.S. stood at 12,889 metric tons (MT). By 1996, that number had increased to over 42,119 MT. By 2000, Chilean imports of dressed/head on fillets were up to over 88,016 MT. In 2000, the Chilean salmon fillet imports grew by fifty percent in that year alone, and in the first quarter of 2001, imports of dressed/head on fillets grew by nearly 50% over first quarter of 2000.

As import increases have added overwhelmingly to supply, the price commanded by Chilean imports has dropped significantly. According to the Urner-Barry *Seafood Price-Current*, on May 22, 2001, the FOB Seattle price for a whole farmed Atlantic salmon dropped to the lowest price ever to $1.20 per pound. In contrast, in March 2000, the level of Chilean salmon imports stood at approximately 12,500 MT for the quarter, with the monthly wholesale price of Chilean salmon fillets at $3.75 per pound FOB Seattle. By March 2001, the Chilean salmon import level had increased to over 18,500 MT for the quarter, but the price of Chilean salmon fillets had dropped to $2.50 per pound, FOB Seattle.

Similarly, according to other reports, Chilean salmon and trout exports to all countries grew by 53% in the first quarter this year over last year's first quarter. However, the price gained by those exports dropped significantly at the same time, with export value increasing just 3%. Expanded sales to Europe (by about 38 percent) and to the U.S. market (by about 24 percent) that accounted for Chile's increase in these first quarter export numbers.

The volume-related price drop of Chilean fillets in the U.S. marketplace has preempted profitable and viable participation by Alaska salmon producers of consumer-ready fresh fillets. The supply of fresh Chilean salmon imports to the U.S. is strongest in the third quarter of the year (25% of total import amount

occurring in July through September), and fourth quarter (during which 28% of the Chilean imports enter the U.S. market). The third quarter is also the heart of the Alaska salmon season because of the timing of our chinook (king) salmon, coho (silver) salmon and sockeye (red) salmon runs. Thus, fresh Alaska salmon is available to access U.S. markets during the third quarter while Chilean fresh salmon supplies are peaking. As a result, the overall volume of fresh salmon in the U.S. market from both sources is the greatest in the third quarter, further depressing prices both for Alaska and Chilean fresh product.

Chile has also very successfully accessed the Japanese market, which was traditionally supplied at the 90% level by fresh Alaska product. However, Chile has increased its market share in Japan to 70%. With volume and price erosion occurring in traditional Alaska salmon markets in Japan, the price paid to Alaska fishermen for Bristol Bay sockeyes, the major Alaska product in Japan, was at a twenty-year low of $0.64/ pound in 2000. As a result, Alaska fishermen and processors have been looking for new U.S. markets for fresh fish. However, the increase in U.S. supplies and resulting decrease in prices caused by Chilean salmon imports are closing out that opportunity.

Alaska salmon is committed to compete with Chilean and other sources of salmon supply to the U.S. marketplace. However, this becomes highly problematic when increasing volumes of Chilean imports depress prices yet Alaskan costs of production remain far higher than those experienced by Chilean salmon farmers and processors.

Significant Costs of Production are Required to be Internalized by Alaska Salmon Producers with No Comparable Internalization Requirements of Chilean Salmon Producers. This Allows Chilean Product to be Marketed in the U.S. at the Above-Mentioned Low Prices.

The large number of seafood harvesting and production requirements and costs borne by the industry in Alaska must be recognized. These are detailed below. Above all, Alaska is mandated by its state constitution to manage its fisheries in a sustainable manner. Federal laws also require that all fisheries be managed on a sustainable yield basis. As a result, Alaska utilizes a world-class fisheries management system that has earned the first-ever certification by the Marine Stewardship Council as a sustainable fishery.

Providing this level of sustainable resource management comes at a cost to Alaska salmon producers. There are operating restrictions caused by limited fishing seasons, narrow hours of the day for fishing during those seasons, and how much fish (quotas) can be harvested. These constraints require fishermen and processors to delay harvesting and processing operations. Yet salmon fishermen and

processors must still pay their boat crews, processing workers and other staff, and maintain state-of-the-art processing facilities located in very remote areas of Alaska.

Significant environmental impacts created by the Chilean aquaculture industry have been identified and are of concern. However, it is our understanding that Chile's salmon aquaculture industry, by comparison to Alaska's salmon industry, has not been required to bear these costs. According to recent research by Chile's Fundacion Terram ("The Inefficiency of Salmon Aquaculture in Chile: Social, Economic, and Environmental Aspects", August 2000) and other reports, in addition to Chile's low labor and transportation costs, the fast growth of the salmon industry in Chile is based on the lack of internalization of environmental and other pertinent costs.

The Report's Executive Summary opens with the statement, "At present, there are no valid reasons to ground the claim of sustainability in the salmon aquaculture industry of the country." The Executive Summary continues "The present situation of the salmon industry is unacceptable as it entails that all Chilean citizens will have to bear the environmental costs and accept that the Environmental Gap is widening every day, as well as the fact that the increase in productivity is not reflected on the salaries of workers."

The lack of internalization of environmental costs in Chile may be a reason for the strong Dutch, Norwegian and Japanese investment in Chilean aquaculture. In its April 11, 2001, report on the world's thirty largest salmon farmers, Intrafish.com (a Norwegian electronic newspaper for the salmon aquaculture industry) writes that the "regulatory burden involved in salmon farming" in Norway is a reason why one of the top thirty does only trout farming in Norway and pursues salmon farming elsewhere. Intrafish.com identifies that the largest Chilean salmon producer is a Dutch-owned company, Nutreco Holding N.V. dba as Marine Harvest, according to a recent report. The second and third largest salmon farmers in Chile are owned by Norwegian companies, with eighty percent of the shares in the third largest producer, Statkorn Holding ASA, owned by the Norwegian State.

Disease and parasites have ravished wild salmon stocks and ecosystems along coastlines in many countries where salmon farms have been developed. For example, Norway has been required to employ a "slash and burn" approach, by poisoning 24 of its streams to kill all aquatic life and rid those streams of voracious parasites coming from nearby aquaculture operations. In most all salmon farm locations where wild salmon stocks are also present, officials have noted a dwindling of those wild stocks. Disease, escapement of farmed salmon, and pollution from these aquaculture operations have been identified as the culprits.

With these tremendous problems, developed countries like Norway, Canada and the U.S. are limiting the number of salmon operations until they can appropriately manage the growth. As mentioned above, obtaining a salmon permit in Norway, the most mature of the world's farmed salmon producers, costly and rigorous endeavor.

In Canada, the Office of Auditor General published a report early this year that cited the Department of Fisheries and Oceans as failing to uphold its legislative duty to protect wild stocks of salmon on its coastlines. Meanwhile, a parasite called Kudoa thyrsites is reported to have infected at least 15% of the British Columbia salmon farms. This parasite liquefies a salmon's organs. Farms along Canada's eastern coast (and before that Norway and Scotland) have been battling Infectious Salmon Anemia, which causes internal bleeding and destroys organs. The moratorium on salmon farm permits is cautiously being lifted.

Unfortunately for Maine salmon farmers just down the coast from Eastern Canada, salmon have begun showing up with the anemia. With disease and delayed reporting of massive escapements of salmon, environmental groups and community activists in Maine are calling for moratoriums on any further aquaculture permits. Similar events have unfolded in Washington State, where salmon farms have found great opposition as those communities struggle to maintain their existing wild salmon stocks.

In contrast to what is occurring elsewhere, the Chilean aquaculture industry has not been required by the Chilean government to address the impacts and internalize the costs of doing so. In a recent Intrafish.com report, the Chilean government was reported to be promulgating regulations that will *speed up* the rate of growth in the aquaculture industry by shortening the license application process.

If the proposed U.S.-Chile Free Trade Agreement does not address this inequity in internalization vis a vis externalization of costs to the salmon industries, Chilean salmon producers will continue not to have to incur these costs and the Chilean salmon industry will be able to continue to provide product at a much lower price in the U.S. market. Yet the environmental and other impacts that such internalized costs in the U.S. seek to avoid are occurring in Chile at significant levels. They will create economic impacts on neighboring Chilean communities, the nearby environment and natural resources, other industries, the federal government and possibly even other nations. This situation of the Chilean aquaculture industry creating external costs should be further examined by the ITC.

State of Alaska and Federal Regulations Affecting Salmon Fisheries

In preparing for the State of Alaska's testimony to the ITC, we have identified a large number of regulatory requirements that are incurred by Alaska harvesters and processors. These provisions have been implemented to safeguard the fishery resource, the consumer, the workers and the environment. Alaska is proud of its fisheries management and processing regimes and believes the U.S. consumer wants and deserves the strict accountability that they provide.

The compilation of these regulations illustrates why the State of Alaska recommends that Chile's fishery resource management regime be examined by the ITC and USTR to look at its regulatory, enforcement, mitigation, and cost of compliance aspects. This examination will identify which requirements and resulting costs are internalized and therefore are likely being compensated through product pricing, and which are externalized and are being paid by local communities and the federal Chilean government, or are not yet being addressed at all. These analyses are necessary to ensure that U.S. and Chilean seafood producers are on an even playing field in terms of the product component cost.

Resource Management

- Processors must submit a commercial operator annual report each year. This is sent to Alaska Department of Fish & Game (ADF&G).
- Processors must submit fish tickets during the season. These are sent to ADF&G.
- Salmon hatcheries have pre- and postseason reports due annually which include annual management plans and production reports.
- Salmon hatcheries must also have permits for the transport/release of fish with ADF&G.
- Salmon hatcheries must have a private nonprofit hatchery (PNP) permit to operate.
- The processor tenders or plants are required to have their weighing scales tested and certified by the Alaska Department of Transportation and Public Facilities (DOT) on an annual basis. There are over 5,000 scales in the fishing industry in Alaska. Aside from costs of gearing the scales for certification, DOT applies the following annual fees:
    - Scales up to 50 pounds: $12
    - Scales 50 to 1000 pounds: $19
    - Scales 1001 to 5000 pounds: $31
    - Scales over 5000 pounds: $125
- All of Alaska's salmon fisheries have been limited under Alaska's Limited Entry Program. A participant must obtain a limited entry permit for each specific fishery (gear type and area) in which they want to participate. Once initially issued by the Commercial Fisheries Entry Commission, transferable

salmon permits trade in the public domain for fair market value. Thus, permit prices vary between specific fisheries and over time. At the current time, salmon limited entry permits range in price from $2,000 to $200,000 each. (In addition to the purchase price, many fishermen must pay additional costs involved with obtaining and repaying financing for their permits.)

- The approximate current market value of the permanent transferable limited entry permits held by fishermen for Alaska's salmon fisheries (i.e. money currently invested by fishermen in their use privileges to participate in Alaska's salmon fisheries) is $331.5 million.
- Participants who obtain their limited entry permits through initial issuance, rather than through transfer from another fisherman, do not incur the expense of purchasing a permit, they must pay a $100 application fee and often also incur the sometimes substantial expense of retaining an attorney to represent them in the limited entry permit adjudication process.
- All fishermen must pay an annual renewal price to the State of Alaska. Annual renewal fees for salmon permits currently range from $50 to $750, depending on the fishery and the residency of the permit holder.
- Fishermen must obtain an annual commercial vessel license for each fishing vessel they use. Depending on the size of the vessel, the annual license fees for vessels used in salmon fisheries range from $20 to $100.
- All crew members involved in Alaska's commercial fisheries must obtain annual licenses. Crew member licenses are issued by the Alaska Department of Fish and Game and currently cost $60 for residents and $125 for nonresidents.
- The US Coast Guard (USCG) requires various types of safety equipment based on vessel location and size. The following amounts are the likely costs for complying with USCG regulations and passing unannounced inspections. Not included are items like bilge pumps, high water alarms, maintenance as the size and type vary too much. These costs are purely for safety equipment as required by USCG regulation.
    - Set net vessels (typically 16 to 26 feet – 2 people) $215(initial) - $25 – 175 (annual thereafter)
    - Gillnet / troller (typically to 45 feet – 2 people) $945 (initial) - $25 - $785 (annual thereafter)
    - Seiner/tender (typically less than 100 feet – 4 people) $7540 (initial) - $780 - $3020 (annual thereafter)
    - Processors (average 12 people) $20,750 (initial) - $1500 - $8010 (annual thereafter).
- All owners of fisheries related assets likely purchase property and casualty insurance to pay liability claims as a result of accident and death. Rates vary depending on the location and type of operations.

Processing Requirements

- All processors must comply with the Safe Drinking Water Act and with standards regarding their processing water source and system. The State of Alaska must approve registered engineer-prepared plans for both systems. Approval takes 30 days after submittal of the complete package and payment of a fee is required. Installation of the approved system must comply with the design.
- Seafood processors are required to have a seafood processing permit from the State of Alaska Department of Environmental Conservation. Either the state or the Food and Drug Administration (FDA) or both may inspect processors. The state permits all processors and may inspect any of them. FDA may inspect any processor who is engaged in interstate commerce (which is broadly defined). The state may also inspect processors under a contract with FDA, and would then inspect for compliance with the state's rules and those of FDA. Or FDA will be under contract to the state to inspect for compliance. Both sets of regulations are similar but the state does have some requirements for the structural aspects of a processing plant that FDA does not. The processing permit, requiring payment of a fee as well as review of the processing design and operation, takes about 30 - 60 days to obtain for new facilities assuming that all of the required information has been provided.
- Seafood processors are required to have a Hazard Analysis, Critical Control Point Plan (HAACCP) that outlines how they will ensure the food is safe. It is the processor who must do the monitoring and keep the records. The State of Alaska Department of Environmental Conservation (DEC) reviews the records. The HACCP plan details how the processor will protect their product from food safety hazards. They will then monitor their operations for compliance with their plans. The records reflect either that they are doing what the plan requires or, if not, the corrections they made. The plant is under frequent written monitoring by the applicable state or federal agency.
- Seafood processors are require to have a Sanitation Plan that outlines how they will keep their plant sanitary and meet good manufacturing practices. The processor must keep written records of the sanitation monitoring. DEC or FDA inspect the records. The plant is also under frequent written monitoring for the sanitation plan.

Environmental Protection Requirements of Processing Facilities

- A processing plant (which often includes a vessel) that discharges wastes to the water must have a federal National Pollutant Discharge Elimination System (NPDES) permit that is certified by the state. Either the state's division of Air and Water Quality or EPA will inspect the facility for compliance. If the state does the inspection, the state alert EPA to any problems identified.
- If a processor has its own electrical generation facility (many do because of their remote locations near the fishing grounds), the processor will have to

have an air permit issued by the state. Either EPA or the state will inspect for air quality emissions. An air permit is time consuming to obtain and the processor must pay a permit fee. There will also be electrical facility design requirements, such as for plumbing, wiring and structural elements, which are derived from the state's building code. The Alaska Department of Labor does the inspections.

- The Environmental Protection Agency closely monitors fish waste. Processors must provide a plan for disposing of waste. Waste must be carried or directed though outfalls to areas where currents can disperse of the waste. Failure to execute a waste plan can carry strong penalties. At this time, five Ketchikan processors are negotiating with the Environmental Protection Agency on fines and penalties for their fish waste dumping. These fines and penalties could exceed $600,000 in total.

Processing Worker/Industry Safety

- All human waste must be disposed of in accordance with state law, and these disposal systems must also be approved by the state. A registered engineer must design the disposal system. Approval takes 30 days after submittal of the complete package and has a fee.
- If a processor serves food to its workers, they will also need a food service permit. This part of the plant may also be inspected by the state. The food service permit takes 30 days to obtain. It requires a schematic of the kitchen and food prep area to scale. There is a permit fee.
- Employers are required to pay unemployment insurance taxes on all employees, which could amount to approximately $880 per employee.
- Employers are required to provide workers' compensation insurance on all employees.
- Processors must pay a minimum wage and overtime (recently increased to over $7/hr).
- Employers who bring employees into the state must pay for their return to the point of hire.
- Employers may not deduct for room and board in remote locations.
- The State Department of Labor enforces state and federal child labor laws.
- Under the Occupational Safety and Health section, the Alaska Department of Labor would inspect the processing facility for machine guarding, health issues on the slime line and ammonia issues, noise, slips, trips, and fall hazards, as well as housing issues. Additionally we would ensure that all electrical equipment is properly grounded. Citations for failure to provide a safe working environment have been assessed as much as $50,000 per occurrence.

Taxation Requirements

- Aside from all the permit fees and costs associated with compliance of other regulations, the Alaska salmon industry pays the following taxes:

    - Corporate Net Income Tax (annual return)
    - Fisheries Business Tax (annual return plus bonus reporting)
    - Seafood Marketing Assessment (annual return plus bonus reporting)
    - Salmon Enhancement Tax (monthly return)
    - Salmon Marketing Tax (monthly return)
- The Alaska Department of Revenue also applies the following reporting and license requirements on fishery participants:
- Alaska Salmon Price Report (3 reports per year plus an annual summary of production)
- Business License (semi-annual)
- Fisheries Business License (annual)
- Provision of security for Fisheries Business Tax (annual)
- Fish buyers surety bond (annual)

Other

- Some processors are licensed motor fuel dealers. If so, they must obtain a license and file monthly returns.
- As mentioned above, Alaska manages its salmon and other marine resources in a sustainable manner, based on the requirement to do so in Alaska's state constitution. This causes tremendous costs for harvesters and processors in terms of having to pay for idle time for their workers. The Alaska Department of Fish and Game will open and close fishing near or on particular salmon streams based on the number of salmon escapement. These closures can last for hours, days or even weeks. There are a number of salmon runs in Western Alaska and other areas of the state that the State of Alaska Department of Fish and Game closed to commercial fishing in the past two summers, for the entire salmon season, because the salmon run was found not to be sustainable at that time.
- It is our understanding that Chilean salmon farms do not face broad national legislation such as the Endangered Species Act. The Endangered Species Act puts significant restraints on Alaska and other U.S. fishing operations in an attempt to understand the dynamics of our ecosystems and the fisheries effects on the ecosystem. For example, pollock fishermen in Alaska are currently greatly constrained by judicial action to address the decline in the Steller Sea Lion, which limits fishing within a specified area surrounding Stellar Sea Lion rookeries. There have also been long-standing limitations on the Alaska longline fleet regarding the number of rare short-tailed Laysan albatross that can killed in their fishery. When fishermen in a certain area meet the bycatch (unintended fish catch) threshold of a fishery, federal officials will close down that fishery immediately.

U.S. seafood processors' compliance with U.S. and Alaska seafood harvesting and processing sustainability and other regulations creates costs which must ultimately

be reflected in the products' wholesale price. Current U.S. market conditions require that U.S. seafood processors compete with Chile's reportedly non-sustainable fish farming operations which do not appear to have to comply with and pay for the compliance with regulations similar to those required of Alaska salmon industry. However, the proposed agreement will likely make it easier and less costly – from a tariff standpoint – for Chilean seafood producers to supply U.S. markets. This could put additional pressure on U.S. seafood companies to curtail and close operations in remote Alaska Native communities which are economically, historically, and culturally reliant on seafood harvesting as their source of cash income.

U.S. Marketing of Chilean Organic Salmon will Occur without Establishment of U.S. Federal Certification Standards and without the Opportunity for Alaska Salmon to Compete

Chile intends to market its farmed salmon in the U.S. organic food marketplace, having announced that its industry will offer internationally certified organic salmon this year. In contrast, the U.S. Department of Agriculture has not published regulations to allow federal certification and subsequent marketing of organic salmon and other seafood, despite a Congressional directive to do so by September 30 of last year. This creates an extremely unfair playing field for Alaska salmon.

The U.S. organic food market, growing at an annual rate of approximately 20 percent, is increasing faster than any other market segment. Two Alaska salmon producers, Prime Select Seafoods and Capilano Seafoods, have been approved by private organic certifiers to market organic salmon and other seafood products. These two companies have indicated that the country's major organic retailer, Whole Foods, will not accept their privately organic products, harvested largely by Native Alaska fishermen, because that retailer already offers Chilean salmon.

It is possible that this reaction parallels the trend, according to a recent report in IntraFish.com, that large supermarket chains who are the salmon industry's largest and most important customers, desire negotiations with large, consolidated companies who can most reliably facilitate salmon product delivery. The three largest producers of Chilean salmon fit that definition, in that they are Dutch-owned (number one Chilean producer Nutreco dba Marine Harvest) and Norwegian-owned (number two Chilean producer Fjord Seafood ASA and number three producer in Chile, Statkorn Holding ASA). Each company is part of an integrated multinational corporate family or holding company which handle all stages of farmed salmon production from "smolt to market", according to the Intrafish.com report of the top thirty salmon farmers in the world.

To address this problem and to open the organic market to Alaska fishermen and processors, the State of Alaska and others have worked for more than two years with the U.S. Department of Agriculture to develop regulations to allow federal certification of organic salmon. But this has proven to be a long and difficult process. The USDA has set no schedule for publishing even draft organic standards for seafood, while publishing in December 2000 organic standards for most other foods.

As a result, Alaska salmon will be at a major disadvantage to Chilean farmed salmon in the fast-growing U.S. organic food market. This will occur despite research documenting Chilean salmon farmers' use of antibiotics and high-density confinement in raising their salmon, escapement of farmed salmon into wild salmon rearing areas, and pollution of many of the lakes used by the Chile's aquaculture industry. We ask that the ITC look at the economic impact of Chilean farmed salmon, marketed as an organic product, on Alaskan salmon which has no similar opportunity for marketing under the organic labeling.

Summary

On behalf of Alaska's Governor Tony Knowles, we appreciate the opportunity to provide our comments today. In summary, we ask that the ITC complete its investigation and provide its report to USTR by August 31, 2001, (or sooner) to support the expedited negotiation schedule agreed to by the countries' two Presidents. We also ask that the portion of the ITC's review addressing the State of Alaska's issues be made available to Governor Knowles.

The State also asks that the three areas of concern, discussed above, be addressed by the ITC in its analysis:

- The substantial increases in Chilean salmon imports are driving down fresh salmon fillet product prices and preempting viable participation by Alaska processors.
- Significant costs of production are required to be internalized and borne by Alaska salmon harvesters and producers with no comparable internalization requirements and costs required of Chilean salmon producers. This allows Chilean product to be marketed in the U.S. at the above-mentioned low prices.
- U.S. marketing of Chilean organic salmon will occur without establishment of U.S. federal certification standards and without the opportunity for Alaska salmon to compete.

Through the ITC preparing its objective findings and independent analysis on these issues, the State of Alaska believes that the USTR, and ultimately the Congress and President, will have the necessary information to address the major

economic issues created by the proposed U.S.-Chile Free Trade Agreement which could most impact our state. Thank you, Mr. Chairman and other members of the Commission, for this opportunity. I look forward to your questions and to providing you any additional information as you may request.